

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A  
PART III



03001781

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

T313

OMB APPROVAL	
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REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

FOUNDERS EQUITY SECURITIES, INC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

2602 MCKINNEY AVE, SUITE 220  
(No. and Street)

DALLAS  
(City)

TX  
(State)

75204  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

TOM SPACKMAN

214 871 3000

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KING GRIFFIN + ADAMSON, PC.

(Name — if individual, state last, first, middle name)

14160 DALLAS PARKWAY DALLAS TX  
(Address) (City) (State)

75254  
Zip Code

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSED  
MAR 17 2003

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

## OATH OR AFFIRMATION

I, Thomas J. Spalkman, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Fountain Equity Securities, Inc., as of December 31, 192007 are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

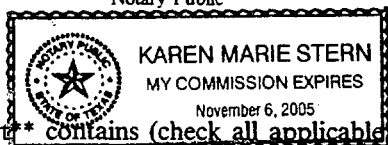
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[Signature]  
Signature  
V.P. Fin. Of  
Title

Karen Marie Stern  
Notary Public



This report \* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



## King Griffin & Adamson P.C.

The Board of Directors and Stockholder  
Founders Equity Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Founders Equity Securities, Inc. (the "Company") (a wholly-owned subsidiary of Founders Equity Group, Inc.) for the year ended December 31, 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission ("SEC"), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.



The Board of Directors and Stockholder  
Founders Equity Securities, Inc.  
Page 2

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*King Griffin & Adamson P.C.*

KING GRIFFIN & ADAMSON P.C.

Dallas, Texas  
January 22, 2003

FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**FOUNDERS EQUITY SECURITIES, INC.**

DECEMBER 31, 2002 and 2001

**FOUNDERS EQUITY SECURITIES, INC.**  
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King Griffin & Adamson P.C.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors  
Founders Equity Securities, Inc.  
Dallas, Texas

We have audited the accompanying statements of financial condition of Founders Equity Securities, Inc. (a corporation and wholly-owned subsidiary of Founders Equity Group, Inc.), as of December 31, 2002 and 2001, and the related statements of operations, changes in stockholder's equity, and cash flows for the years then ended that are filed pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Founders Equity Securities, Inc., as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II on pages 12 and 13 herein, is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*King Griffin & Adamson P.C.*

KING GRIFFIN & ADAMSON P.C.

Dallas, Texas  
January 22, 2003

MEMBER



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Institute of Certified  
Public Accountants  
Private Companies &  
SEC Practice Sections

# FOUNDERS EQUITY SECURITIES, INC.

## STATEMENTS OF FINANCIAL CONDITION

December 31, 2002 and 2001

### ASSETS

	<u>2002</u>	<u>2001</u>
Cash and cash equivalents	\$ 105,112	\$ 125,181
Deposits with clearing organization	25,000	25,000
Commissions receivable from clearing organizations	-	805
Securities owned:		
Marketable, at market value	29,205	22,679
Not readily marketable, at estimated fair value	63,046	59,380
Due from parent	<u>120,260</u>	<u>237,145</u>
Total assets	<u>\$ 342,623</u>	<u>\$ 470,190</u>

### LIABILITIES AND STOCKHOLDER'S EQUITY

Payable to clearing organization	\$ 8,578	\$ 10,959
Commitments and contingencies (Notes B and F)		
Stockholder's equity:		
Preferred stock, \$100 par value, 1,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, no par value, 5,000,000 shares authorized, 1,000,000 shares issued and outstanding	135,998	235,998
Retained earnings	<u>198,047</u>	<u>223,233</u>
Total stockholder's equity	<u>334,045</u>	<u>459,231</u>
Total liabilities and stockholder's equity	<u>\$ 342,623</u>	<u>\$ 470,190</u>



# FOUNDERS EQUITY SECURITIES, INC.

## STATEMENTS OF OPERATIONS

Years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
REVENUES		
Commissions and fees	\$ 905,409	\$ 167,040
Margin and credit interest rebates	10,781	15,903
Interest	357	980
Trading losses, net	<u>(128,461)</u>	<u>(299,673)</u>
	<u>788,086</u>	<u>(115,750)</u>
EXPENSES		
Employee compensation and benefits	73,169	83,333
Commissions	593,000	19,660
Floor brokerage, exchange, and clearance fees	35,649	65,207
Communications and data processing	21,364	37,156
Interest	630	1,494
Occupancy	23,512	33,039
Professional fees	63,500	9,500
Other expenses	<u>17,240</u>	<u>29,645</u>
	<u>828,064</u>	<u>279,034</u>
NET LOSS BEFORE INCOME TAX BENEFIT	<u>(39,978)</u>	<u>(394,784)</u>
INCOME TAX BENEFIT	<u>14,792</u>	<u>146,070</u>
NET LOSS	<u>\$ (25,186)</u>	<u>\$ (248,714)</u>

# FOUNDERS EQUITY SECURITIES, INC.

## STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

Years ended December 31, 2002 and 2001

	<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Stockholder's</u>
				<u>Equity</u>
Balances, December 31, 2000	1,000,000	\$ 208,800	\$ 471,947	\$ 680,747
Capital contribution	-	27,198	-	27,198
Net loss	-	-	(248,714)	(248,714)
Balances, December 31, 2001	1,000,000	235,998	223,233	459,231
Distribution to parent	-	(100,000)	-	(100,000)
Net loss	-	-	(25,186)	(25,186)
Balances, December 31, 2002	<u>1,000,000</u>	<u>\$ 135,998</u>	<u>\$ 198,047</u>	<u>\$ 334,045</u>

# FOUNDERS EQUITY SECURITIES, INC.

## STATEMENTS OF CASH FLOWS Years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (25,186)	\$ (248,714)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Change in operating assets and liabilities:		
Receivable from clearing organization	805	139,516
Securities owned	(10,192)	240,181
Due from parent	116,885	(101,549)
Payable to clearing organization	(2,381)	10,959
Due to related party	<u>-</u>	<u>(116,717)</u>
Net cash used in operating activities	79,931	(76,324)
CASH FLOWS FROM INVESTING ACTIVITIES	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital (distribution) contribution	<u>(100,000)</u>	<u>27,198</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(20,069)	(49,126)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>125,181</u>	<u>174,307</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 105,112</u>	<u>\$ 125,181</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 630</u>	<u>\$ 1,000</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

## FOUNDERS EQUITY SECURITIES, INC.

### NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

#### NOTE A - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Nature of Business

Founders Equity Securities, Inc. (the "Company") is a wholly owned subsidiary of Founders Equity Group, Inc. (the "Parent") and acts as a broker, to introduce and forward all transactions and accounts of its customers to other brokers and dealers (who act as the Company's clearing broker), who carry such accounts on a fully disclosed basis. As the Company executes and clears all customer transactions with a clearing broker-dealer on a fully disclosed basis, it is exempt from the provisions of the Securities and Exchange Commission Rule 15c3-3 subparagraph (k)(3)(ii).

##### Cash and Cash Equivalents

The Company considers all highly liquid short-term investments with an original maturity of three months or less when purchased to be cash equivalents.

##### Commissions Receivable

Management believes that all commissions receivable are fully collectible, therefore no allowance for doubtful accounts has been provided.

##### Securities Transactions

Investment securities are stated at quoted market value or at estimated fair value where quoted values are not available. Realized and unrealized gains and losses are included in the statement of operations. The costs of investment securities sold is determined using the specific identification method. Investment securities transactions are recorded based on the trade date. The investment securities collateralize the payable to clearing organization.

##### Commissions

Commission revenue and related expenses are recognized on a settlement date basis.

##### Income Taxes

The Company is included in the consolidated federal income tax return filed by its Parent. Income taxes are calculated as if the Company filed on a separate return basis. Current tax receivable/payable are included in due to/from Parent. Deferred tax assets and liabilities, if any, are recorded separately.

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

## **FOUNDERS EQUITY SECURITIES, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2002 and 2001

#### **NOTE A - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

##### Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were used. Significant estimates include an allocation of operating expenses to the Company from the Parent as discussed in Note C.

#### **NOTE B - NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2001 the Company elected to operate under rule 15c3-1a(2)(iv), which provides for a \$100,000 net capital requirement. At December 31, 2001, the Company had net capital \$159,304, which was \$59,304 in excess of its required net capital of \$100,000. On October 24, 2002 the Company changed its election to operate under rule 15c3-1a(2)(vi), which provides for a \$5,000 net capital requirement. At December 31, 2002, the Company had net capital of \$146,358, which was \$141,358 in excess of its required net capital of \$5,000. The Company's ratio of aggregate indebtedness to net capital was 0.06 to 1 and 0.07 to 1, respectively at December 31, 2002 and 2001.

#### **NOTE C - RELATED PARTY TRANSACTIONS**

The Parent pays substantially all of the operating expenses of the Company and assesses the Company a charge for its respective share of the operating expense under an expense sharing agreement. During 2002 and 2001, such expenses amounted to approximately \$136,000 and \$163,000, respectively, and were reimbursed to the Parent or included in Due from Parent. In addition, for the years ended December 31, 2002 and 2001 the Company's current income tax benefit was \$14,792 and \$146,070, respectively, and is included in Due from Parent at December 31, 2002 and 2001. The relationship and expense sharing agreement between the Company and its Parent could significantly effect the statements of financial condition, operations and cash flows as presented.

#### **NOTE D - INCOME TAXES**

The income tax benefit for the years ending December 31, 2002 and 2001 includes only current tax benefits. There was no deferred income tax expense (benefit) for the years ending December 31, 2002 and 2001 or any deferred tax assets or liabilities at December 31, 2002 and 2001. The income tax benefit for the years ended December 31, 2002 and 2001, in the Company's statements of operations has been computed as if the Company filed a stand-alone tax return. The entire benefit has been reflected as an increase in the amount due from Parent.

## FOUNDERS EQUITY SECURITIES, INC.

### NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

#### NOTE D - INCOME TAXES (Continued)

A reconciliation of the normally expected federal income tax benefit based on the U.S. Corporate income tax rate of 34% to actual benefit for the years ending December 31, 2002 and 2001 is as follows:

	<u>2002</u>	<u>2001</u>
Expected income tax benefit	\$ 13,592	\$ 134,227
State income tax benefit, net of federal income tax effect	<u>1,200</u>	<u>11,843</u>
	<u>\$ 14,792</u>	<u>\$ 146,070</u>

#### NOTE E - CONCENTRATIONS OF CREDIT RISK

Cash deposits are at risk to the extent that they exceed Federal Deposit Insurance Corporation insured amounts. To minimize this risk, management places its cash and cash equivalents with high credit quality financial institutions. At December 31, 2002, the Company had cash balances on deposit that exceeded the balance insured by the FDIC in the amount of \$5,112.

The Company is engaged in various trading and brokerage activities which involve counterparties, primarily broker-dealers, banks, and other financial institutions. In the event these counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparties or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty. All of the Company's commissions are received from one broker-dealer.

#### NOTE F - CONTINGENT LIABILITY

The Company has a contingent liability resulting from a customer default of approximately \$700,000 on an account held by their clearing broker in the ordinary course of business. The Company is currently seeking enforcement by the NASD to require payment by the customer to the clearing broker. However, if the customer is unable to repay this default, the Company will become responsible for such repayment. Currently, a shareholder of the Parent has placed cash collateral with the clearing broker securing this default. Management believes that the probable resolution of this contingency will not materially affect the financial position or results of operations of the Company.

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## **SUPPLEMENTARY INFORMATION**

## FOUNDERS EQUITY SECURITIES, INC.

### SCHEDULE I – COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION

As of December 31, 2002

#### NET CAPITAL

Total stockholder's equity	\$ 334,045
Deduction for haircuts on investment securities, computed pursuant to Rule 15c3-1	(67,427)
Deduction for due from parent	<u>(120,260)</u>
Net capital	<u>\$ 146,358</u>

#### AGGREGATE INDEBTEDNESS

Payable to clearing organization	<u>\$ 8,578</u>
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CAPITAL REQUIREMENT PURSUANT TO RULE 15C3-1 EQUAL TO THE GREATER  
OF 6 2/3% OF AGGREGATE INDEBTEDNESS OR \$5,000

5,000

NET CAPITAL IN EXCESS OF REQUIREMENT

\$ 141,358

RATIO: Aggregate indebtedness to net capital

0.06 to 1

#### RECONCILIATION WITH COMPANY'S COMPUTATION

Stockholder's equity, as reported in Company's Part II (unaudited) FOCUS report	\$ 336,558
Audit adjustment to record current year income tax benefit	14,792
Audit adjustment to record additional overhead expenses	(66,677)
Audit adjustment to properly state securities owned	(46,621)
Audit adjustment to properly record securities received for services performed	94,399
Other	<u>1,594</u>
Total stockholder's equity per above	<u>\$ 334,045</u>
Net capital, as reported in Company's Part II (unaudited) FOCUS report	\$ 146,657
Net audit adjustments	<u>(299)</u>
Net capital per above	<u>\$ 146,358</u>



**FOUNDERS EQUITY SECURITIES, INC.**

**SCHEDULE II - INFORMATION RELATING TO POSSESSION  
OR CONTROL REQUIREMENTS UNDER RULE 15c3-3 AND  
COMPUTATION FOR DETERMINATION OF THE RESERVE  
REQUIREMENTS UNDER RULE 15c3-3 OF THE  
SECURITIES AND EXCHANGE COMMISSION**

As of December 31, 2002

The Company's transactions with customers consist exclusively of acting as an introducing broker/dealer to a clearing broker/dealer on a fully disclosed basis. The Company transmits all customer funds and securities to the clearing broker/dealer who, in turn, carries all accounts of such customers. The Company, therefore, meets the requirements of paragraph (k)(2)(ii) of Rule 15c3-3 and is exempt from the computation of cash reserve requirements for brokers and dealers.